

Message Text

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ACTION ARA-10

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USIA-06 EB-07 COME-00 TRSE-00 OMB-01 AID-05 FRB-01

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E.O. 11652: N/A

TAGS: EGEN EFIN BEXP BB

SUBJ: GOB SUPPLEMENTARY BUDGET PROPOSALS

REF: (A) BTN 0619 (B) BTN 1984

BEGIN UNCLASSIFIED

1. IN SPEECH BEFORE HOUSE OF ASSEMBLY ON NOVEMBER 21, BARBADIAN PRIME MINISTER BARROW, IN HIS CAPACITY AS FINANCE MINISTER, PRESENTED SERIES OF BUDGET PROPOSALS SUPPLEMENTING THOSE IN APRIL BUDGET SPEECH, REPORTED REF (A).

2. BARROW OPENED BY NOTING THAT APRIL BUDGET PROPOSALS HAD BEEN DESIGNED TO DEAL WITH GOB DEFICIT IN CURRENT ACCOUNTS AND OVERALL DEFICIT IN BALANCE OF PAYMENTS, AND TO DO SO IN WAYS THAT WOULD NOT FURTHER AGGRAVATE PACE OF ALREADY RAPID PRICE INCREASES. SUBSEQUENT DEVELOPMENTS HAD SHOWN, HOWEVER, THAT ADDITIONAL MEASURES WERE REQUIRED TO STRENGTHEN GOB'S BUDGETARY POSITION, STIMULATE GROWTH, AND BRING RATE OF PRICE INCREASES IN LINE WITH BARBADOS'

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MAIN TRADING PARTNERS.

3. REVIEWING LAST SIX MONTHS IN DETAIL, BARROW DESCRIBED PICTURE AS "MIXED" AND SUMMARIZED CURRENT SITUATION AS ONE IN WHICH, AS RESULT OF GOB POLICIES, IMPROVEMENT HAD BEEN ACHIEVED IN BALANCE OF PAYMENTS (ALTHOUGH STILL IN DEFICIT) AT EXPENSE OF REDUCED EMPLOYMENT OPPORTUNITIES AND OVERALL LEVEL OF ECONOMIC ACTIVITY. MOREOVER, INFLATIONARY TRENDS IN ECONOMY HAD REACHED PROPORTIONS THAT COULD CANCEL GAINS FROM GOB POLICIES. IN THESE CIRCUMSTANCES, REVERSAL OF PRESENT BUDGETARY TRENDS SEEMED NECESSARY TO BRING ABOUT RECOVERY IN GROWTH OF OUTPUT AND DECLINE IN PRICE TRENDS. HOWEVER, NO SINGLE POLICY EXPEDIENT BUT ONLY PACKAGE OF POLICIES COULD ACCOMPLISH THESE ENDS.

4. BARROW THEN PRESENTED PACKAGE INCLUDING FOLLOWING MEASURES:

(A) INCREASE IN ROAD TAX FROM BDS DOL .41 TO BDS DOL .81, WITH CONSEQUENT 25 PERCENT INCREASE IN PRICE OF GASOLINE;

(B) IMPOSITION OF 5 PERCENT SALES TAX ON ALL ITEMS SOLD HERE, EXCEPT FOOD, DRINKS, MOTOR CARS, GASOLINE/MACHINERY AND/CAMPITAL EQUIPMENT, CONSTRUCTION MATERIALS AND CERTAIN OTHERS;

(C) IMPOSITION OF NEW CORPORATION TAX ON ALL COMPANIES, DOMESTIC AND FOREIGN, OPERATING HERE;

(D) INCREASE OF BETWEEN ONE AND TWO PERCENT IN ESTATES AND SUCCESSION DUTIES;

(E) ESTABLISHMENT OF REQUIREMENT THAT INCOME TAXES OF PROFESSIONALS, SELF-EMPLOYED PERSONS AND BUSINESSES BE PAID ON INSTALLMENT BASIS;

(F) BDS DOLS 2 INCREASED PER WEEK IN OLD-AGE PENSIONS;

(G) BEGINNING SEPTEMBER 1975 PROVISION BY GOB OF TEXTBOOKS TO ALL SCHOOL CHILDREN SUBJECT ONLY TO PAYMENT OF "NOMINAL MAINTENANCE CHARGE;"

(H) PAYMENT TO PUBLIC WORKERS EARNING LESS THAN BDS DOLS 700 PER MONTH OF A SPECIAL "NON-REIMBURSABLE ADVANCE" IN DECEMBER; LIMITED OFFICIAL USE

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(I) PROVISION BY GOB OF ADDITIONAL MORTGAGE FINANCING FOR MIDDLE AND LOW INCOME HOUSING TO BE BUILT UNDER NATIONAL HOUSING CORPORATION PROGRAM;

(J) ESTABLISHMENT IN NEAR FUTURE OF NATIONAL PRODUCTIVITY COUNCIL WITH REPRESENTATION FROM GOB, EMPLOYERS AND WORKERS.

5. BARROW NOTED THAT BARBADOS STILL IMPORTING SOME "FRIVOLOUS ITEMS," BUT THAT, IN LIGHT OF RECENT RESOLUTION BY INTERNATIONAL MONETARY FUND OPPOSING TRADE RESTRICTIONS FOR BALANCE OF PAYMENTS REASONS, HE HAD ESCHEWED IMPOSITION OF ANY RESTRICTIONS ON IMPORTS. HE URGED, HOWEVER, THAT INDIVIDUAL CITIZENS EXERCISE DISCRETION IN THEIR PURCHASES AND NOT SPEND MONEY ON THINGS THEY COULD DO WITHOUT. IN SIMILAR VEIN, HE EXPRESSED VIEW THAT RATES OF INTERESTS ON COMMERCIAL BANK LOANS TOO HIGH BUT THAT, FOR THE PRESENT, GOB WOULD RELY ON "PERSUASION" TO TAKE CARE OF TTIS PROBLEM.

6. IN CONCLUSION, BARROW COUTLINED GOB FINANCIAL STRATEGY FOR 1975 BASED ON FIVE POINTS:

(A) TIGHT CONTROL OF EXPENDITURES;

(B) INCREASED EMPHASIS ON AGRICULTURAL PRODUCTION;

(C) CAPITAL INVESTMENT IN PRODUCTIVE AS OPPOSED TO WELFARE ENTERPRISES;

(D) IMILEMENTATION OF A PRICES AND INCOME POLICY; AND

(E) PROMOTION OF SUBSTITUTES FOR ITEMS NOW IMPORTED THROUGH INCENTIVES TO LOCAL ENTERPRISES. END UNCLASSIFIED

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7. COMMENT: LOCAL REACTION TO BUDGET PROPOSALS HAS BEEN RE-STRAINED, AS WAS THE CASE WITH APRIL PROPOSALS. LOCAL BUSI-NESSMEN GENERALLY SEEM RELIEVED THAT MEASURES PROPOSED ARE NOT AS DRASTIC AS HAD BEEN FEARED, BUT, ON THE OTHER HAND, THEY ALSO EXPRESS APPREHENSION THAT MEASURES NOT LIKELY TO ACHIEVE LIMITED OFFICIAL USE

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DESIRED RESULTS OPPOSITION WILL REPLY TO SPEECH IN HOUSE OF ASSEMBLY TOMORROW EVEN (NOVEMBER 26). OPPOSITION LEADER J.M.G. ("TOM") ADDAMS HAS ALREADY SAID, HOWEVER, THAT "PRIME MINISTER HAS DONE NOTHING TO ANSWER THE FUNDAMENTAL QUESTIONS AS TO WHY THE GOVERNMENT HAS, IN THE FACE OF THE OVERWHELMING EVIDENCE AVAIL-ABLE, ALLOWED THE ECONOMY OF BARBADOS TO DETERIORATE TO ITS PRESENT DEPLORABLE LEVEL."

WITH RESPECT TO FOUTH POINT IN GOB STRATEGY PROGRAM (PARA 6 ABOVE), BARBADOS WORKERS UNION HAS STATED: "IT WOULD BE SUICIDAL FOR THE WORKERS IF THE BARBADOS WORKERS UNION WERE TO AGREE TO AN INCOMES POLICY WHICH WOULD PUT THEM IN A WORSE ECONOMIC POSITION" AND "WE BELIEVE THAT AN INCOME POLICY WHICH PRESUMABLY WILL ATTEMPT TO PUT A BRAKE ON WAGE INCREASES WOULD BE NONSENCICAL."

WHILE OPPOSITION CRITICISM ONLY TO BE EXPECTED, BWU OBJECTIONS
MUST GIVE GOB PAUSE.

IT IS TOO SOON TO JUDGE IMPACT OF PROPOSED MEASURES ON U.S.
INTERESTS HERE. CLEARLY, HOWEVER, BARBADOS WILL BE SOMEWHAT LESS
ATTRACTIVE TO POTENTIAL INVESTORS AND U.S. FIRMS ALREADY OPERA-
TING HERE WILL BE FACED WITH INCREASED COSTS. END LIMITED
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